

# **Emirates Investment Bank P.J.S.C.**

## **INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 JUNE 2015 (UNAUDITED)**

## **REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF EMIRATES INVESTMENT BANK P.J.S.C.**

### ***Introduction***

We have reviewed the accompanying interim condensed statement of financial position of Emirates Investment Bank P.J.S.C. (the “Bank”) as at 30 June 2015 and the related interim condensed statements of income and comprehensive income for the three month and six month periods then ended, and the related interim condensed statements of cash flows and changes in equity for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

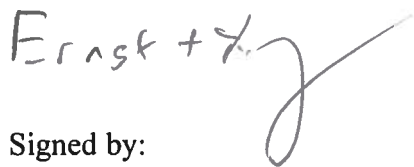
### ***Scope of Review***

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

For Ernst & Young



Signed by:

Anthony O’Sullivan  
Partner  
Registration No. 687

10 August 2015

Dubai, United Arab Emirates

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

|                                         |       | 30 June<br>2015<br>AED'000<br>(Unaudited) | 31 December<br>2014<br>AED'000<br>(Audited) |
|-----------------------------------------|-------|-------------------------------------------|---------------------------------------------|
|                                         | Notes |                                           |                                             |
| <b>ASSETS</b>                           |       |                                           |                                             |
| Cash and balances with UAE Central Bank |       | 279,419                                   | 236,787                                     |
| Due from banks                          | 3     | 975,219                                   | 1,042,798                                   |
| Loans and advances, net                 | 4     | 639,586                                   | 573,251                                     |
| Investments                             | 5     | 1,585,189                                 | 1,628,693                                   |
| Investment in an associate              |       | 72                                        | 72                                          |
| Property & equipment                    |       | 5,943                                     | 4,834                                       |
| Other assets                            |       | 25,333                                    | 18,343                                      |
| <b>TOTAL ASSETS</b>                     |       | <b>3,510,761</b>                          | <b>3,504,778</b>                            |
| <b>LIABILITIES AND EQUITY</b>           |       |                                           |                                             |
| <b>LIABILITIES</b>                      |       |                                           |                                             |
| Due to banks                            | 6     | 125,431                                   | 130,883                                     |
| Customer deposits                       |       | 2,993,200                                 | 2,985,063                                   |
| Other liabilities                       |       | 45,216                                    | 49,093                                      |
| <b>TOTAL LIABILITIES</b>                |       | <b>3,163,847</b>                          | <b>3,165,039</b>                            |
| <b>EQUITY</b>                           |       |                                           |                                             |
| Share capital                           |       | 70,000                                    | 65,000                                      |
| Legal reserve                           |       | 32,500                                    | 32,500                                      |
| Special reserve                         |       | 28,984                                    | 28,984                                      |
| Cumulative changes in fair values       |       | 31,592                                    | 52,248                                      |
| Retained earnings                       |       | 183,838                                   | 161,007                                     |
| <b>TOTAL EQUITY</b>                     |       | <b>346,914</b>                            | <b>339,739</b>                              |
| <b>TOTAL LIABILITIES &amp; EQUITY</b>   |       | <b>3,510,761</b>                          | <b>3,504,778</b>                            |

The interim condensed financial statements were approved by the Board of Directors on 10 August 2015 and signed on its behalf by:

  
Khaled Sifri  
(Chief Executive Officer)

The attached notes 1 to 15 form part of these interim condensed financial statements.

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED INCOME STATEMENT

For the period ended 30 June 2015 (Unaudited)

|                                                                | <i>Notes</i> | <i>Three months ended</i><br><i>30 June</i>       |                                                   | <i>Six months ended</i><br><i>30 June</i>         |                                                   |
|----------------------------------------------------------------|--------------|---------------------------------------------------|---------------------------------------------------|---------------------------------------------------|---------------------------------------------------|
|                                                                |              | <i>2015</i><br><i>AED'000</i><br><i>Unaudited</i> | <i>2014</i><br><i>AED'000</i><br><i>Unaudited</i> | <i>2015</i><br><i>AED'000</i><br><i>Unaudited</i> | <i>2014</i><br><i>AED'000</i><br><i>Unaudited</i> |
| Interest income                                                | 7            | 8,554                                             | 10,843                                            | 17,748                                            | 14,856                                            |
| Net income from investments                                    | 8            | 14,635                                            | 28,559                                            | 49,055                                            | 68,230                                            |
|                                                                |              | <u>23,189</u>                                     | <u>39,402</u>                                     | <u>66,803</u>                                     | <u>83,086</u>                                     |
| Interest expense                                               |              | (8,896)                                           | (11,128)                                          | (17,762)                                          | (21,930)                                          |
| <b>NET INTEREST INCOME AND<br/>NET INCOME FROM INVESTMENTS</b> |              | <b>14,293</b>                                     | <b>28,274</b>                                     | <b>49,041</b>                                     | <b>61,156</b>                                     |
| Other income                                                   |              | 7,908                                             | 4,686                                             | 13,554                                            | 7,178                                             |
| Exchange gain/(loss) - net                                     |              | 783                                               | 25                                                | 1,462                                             | (120)                                             |
| <b>OPERATING INCOME</b>                                        |              | <b>22,984</b>                                     | <b>32,985</b>                                     | <b>64,057</b>                                     | <b>68,214</b>                                     |
| General and administrative expenses                            |              | (16,386)                                          | (12,029)                                          | (32,507)                                          | (23,880)                                          |
| Impairment loss on available- for- sale-<br>investments        |              | -                                                 | (1,076)                                           | (3,719)                                           | (1,076)                                           |
| Impairment loss on loans and advances                          |              | -                                                 | (4,110)                                           | -                                                 | (7,970)                                           |
| <b>OPERATING EXPENSES</b>                                      |              | <b>(16,386)</b>                                   | <b>(17,215)</b>                                   | <b>(36,226)</b>                                   | <b>(32,926)</b>                                   |
| <b>PROFIT FOR THE PERIOD</b>                                   |              | <b>6,598</b>                                      | <b>15,770</b>                                     | <b>27,831</b>                                     | <b>35,288</b>                                     |
| <b>BASIC AND DILUTED EARNINGS<br/>PER SHARE</b>                | 9            | <b>9.43</b>                                       | <b>22.53</b>                                      | <b>39.76</b>                                      | <b>50.41</b>                                      |

The attached notes 1 to 15 form part of these interim condensed financial statements.

## INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2015 (Unaudited)

|                                                                                                         | <i>Three months ended</i><br><i>30 June</i>       |                                                   | <i>Six months ended</i><br><i>30 June</i>         |                                                   |
|---------------------------------------------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------|---------------------------------------------------|---------------------------------------------------|
|                                                                                                         | <i>2015</i><br><i>AED'000</i><br><i>Unaudited</i> | <i>2014</i><br><i>AED'000</i><br><i>Unaudited</i> | <i>2015</i><br><i>AED'000</i><br><i>Unaudited</i> | <i>2014</i><br><i>AED'000</i><br><i>Unaudited</i> |
| <b>Profit for the period</b>                                                                            | <b>6,598</b>                                      | <b>15,770</b>                                     | <b>27,831</b>                                     | <b>35,288</b>                                     |
| <b>Other comprehensive (loss) / income to be reclassified to income statement in subsequent periods</b> |                                                   |                                                   |                                                   |                                                   |
| Net unrealised (loss) / gain on available-for-sale investments                                          | (7,642)                                           | 9,313                                             | (28)                                              | 43,558                                            |
| Net realised gain transferred to income statement on disposal of available-for-sale investments         | (3,413)                                           | (13,859)                                          | (24,347)                                          | (32,279)                                          |
| Impairment loss on available-for-sale investments recognised in the income statement                    | -                                                 | 1,076                                             | 3,719                                             | 1,076                                             |
| <b>Other comprehensive (loss) / income for the period</b>                                               | <b>(5,055)</b>                                    | <b>(3,470)</b>                                    | <b>(20,656)</b>                                   | <b>12,355</b>                                     |
| <b>Total comprehensive (loss) / income for the period</b>                                               | <b>(4,457)</b>                                    | <b>12,300</b>                                     | <b>7,175</b>                                      | <b>47,643</b>                                     |

The attached notes 1 to 15 form part of these interim condensed financial statements.

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the period ended 30 June 2015 (Unaudited)

|                                                                                                                                                   | <i>Six months ended 30 June</i> |                |
|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------|
|                                                                                                                                                   | <i>2015</i>                     | <i>2014</i>    |
|                                                                                                                                                   | <i>AED'000</i>                  | <i>AED'000</i> |
| <b>OPERATING ACTIVITIES</b>                                                                                                                       |                                 |                |
| Profit for the period                                                                                                                             | 27,831                          | 35,288         |
| Adjustments for:                                                                                                                                  |                                 |                |
| Depreciation                                                                                                                                      | 992                             | 695            |
| Impairment loss on available-for-sale investments                                                                                                 | 3,719                           | 1,076          |
| Impairment loss on loans and advances                                                                                                             | -                               | 7,970          |
| Change in due to bank with original maturity of over three months                                                                                 | -                               | (318,740)      |
| Change in loans and advances                                                                                                                      | (66,335)                        | (512,318)      |
| Change in investments (net)                                                                                                                       | 19,129                          | 714,838        |
| Change in other assets                                                                                                                            | (6,990)                         | 13,849         |
| Change in customers' deposits                                                                                                                     | 8,137                           | 837,885        |
| Change in other liabilities                                                                                                                       | (3,877)                         | 4,672          |
| Net cash (used in)/from operating activities                                                                                                      | (17,394)                        | 785,215        |
| <b>INVESTING ACTIVITIES</b>                                                                                                                       |                                 |                |
| Purchase of property and equipment                                                                                                                | (2,101)                         | (1,119)        |
| Net cash used in investing activities                                                                                                             | (2,101)                         | (1,119)        |
| <b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>                                                                                         | <b>(19,495)</b>                 | <b>784,096</b> |
| Cash and cash equivalents at 1 January                                                                                                            | 1,205,633                       | 83,632         |
| <b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>                                                                                                       | <b>1,186,138</b>                | <b>867,728</b> |
| Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less: |                                 |                |
| Cash and balances with the UAE Central Bank                                                                                                       | 279,419                         | 296,882        |
| Due from banks                                                                                                                                    | 975,219                         | 672,944        |
| Due to banks                                                                                                                                      | (68,500)                        | (102,098)      |
|                                                                                                                                                   | 1,186,138                       | 867,728        |
| <b>Operational cash flows from interest and dividends</b>                                                                                         |                                 |                |
| Interest paid                                                                                                                                     | 22,123                          | 18,362         |
| Interest received (including from investments)                                                                                                    | 34,706                          | 43,965         |
| Dividends received                                                                                                                                | 9,421                           | 9,984          |

The attached notes 1 to 15 form part of these interim condensed financial statements.

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2015 (Unaudited)

|                                             | Share<br>capital<br>AED '000<br>(Unaudited) | Legal<br>reserve<br>AED '000<br>(Unaudited) | Special<br>reserve<br>AED '000<br>(Unaudited) | Cumulative<br>changes in<br>fair value<br>AED '000<br>(Unaudited) | Retained<br>earnings<br>AED '000<br>(Unaudited) | Total<br>AED '000<br>(Unaudited) |
|---------------------------------------------|---------------------------------------------|---------------------------------------------|-----------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------|----------------------------------|
| At 1 January 2015                           | 65,000                                      | 32,500                                      | 28,984                                        | 52,248                                                            | 161,007                                         | 339,739                          |
| Profit for the period                       | -                                           | -                                           | -                                             | -                                                                 | 27,831                                          | 27,831                           |
| Other comprehensive income for the period   | -                                           | -                                           | -                                             | (20,656)                                                          | -                                               | (20,656)                         |
| Total comprehensive income for the period   | -                                           | -                                           | -                                             | (20,656)                                                          | 27,831                                          | 7,175                            |
| Scrip dividend – relating to 2014 (Note 14) | 5,000                                       | -                                           | -                                             | -                                                                 | (5,000)                                         | -                                |
| <b>Balance at 30 June 2015</b>              | <b>70,000</b>                               | <b>32,500</b>                               | <b>28,984</b>                                 | <b>31,592</b>                                                     | <b>183,838</b>                                  | <b>346,914</b>                   |
| At 1 January 2014                           | 60,000                                      | 30,000                                      | 24,361                                        | 63,337                                                            | 126,896                                         | 304,594                          |
| Profit for the period                       | -                                           | -                                           | -                                             | -                                                                 | 35,288                                          | 35,288                           |
| Other comprehensive income for the period   | -                                           | -                                           | -                                             | 12,355                                                            | -                                               | 12,355                           |
| Total comprehensive income for the period   | -                                           | -                                           | -                                             | 12,355                                                            | 35,288                                          | 47,643                           |
| Scrip dividend (note 14)                    | 5,000                                       | -                                           | -                                             | -                                                                 | (5,000)                                         | -                                |
| <b>Balance at 30 June 2014</b>              | <b>65,000</b>                               | <b>30,000</b>                               | <b>24,361</b>                                 | <b>75,692</b>                                                     | <b>157,184</b>                                  | <b>352,237</b>                   |

The attached notes 1 to 15 form part of these interim condensed financial statements.

## 1 INCORPORATION AND ACTIVITIES

Emirates Investment Bank P.J.S.C. (the "Bank") was incorporated on 17 February 1976 in Dubai, United Arab Emirates by a decree of HH The Ruler of Dubai. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) of 1984 (as amended) as a Public Joint Stock Company. During 2010, the Bank changed its name to Emirates Investment Bank PJSC. The Bank is engaged in the business of private banking and investment banking. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 52.85% of the shares in the Bank.

## 2 ACCOUNTING POLICIES

### Basis of preparation

The interim condensed financial statements of the Bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2014. In addition, results for the six months ended 30 June 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

### New standards, interpretations and amendments

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015.

The Bank applies, for the first time, certain standards and amendments. As required by IAS 34, the nature and the effect of these changes are disclosed below.

Several other new standards and amendments apply for the first time in 2015. However, they do not impact the annual financial statements of the Bank or the interim condensed financial statements of the Bank.

The nature and the impact of each new standard/amendment is described below:

### *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Bank as there is no defined benefit plan with contributions from employees or third parties.

The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 3 DUE FROM BANKS

|               | 30 June<br>2015<br>AED'000<br>(Unaudited) | 31 December<br>2014<br>AED'000<br>(Audited) |
|---------------|-------------------------------------------|---------------------------------------------|
| Domestic      | 99,786                                    | 105,509                                     |
| Regional      | 46,342                                    | 34,586                                      |
| International | 829,091                                   | 902,703                                     |
|               | <u>975,219</u>                            | <u>1,042,798</u>                            |

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2015 (Unaudited)

## 4 LOANS AND ADVANCES, NET

|                                       | 30 June<br>2015<br>AED'000<br>(Unaudited) | 31 December<br>2014<br>AED'000<br>(Audited) |
|---------------------------------------|-------------------------------------------|---------------------------------------------|
| <b>Commercial and business:</b>       |                                           |                                             |
| Overdrafts / loans (secured)          | 651,991                                   | 585,656                                     |
| Gross loans and advances              | 651,991                                   | 585,656                                     |
| Less: collective impairment provision | (12,405)                                  | (12,405)                                    |
| Loans and advances, net               | 639,586                                   | 573,251                                     |

At 30 June 2015, there were no loans individually determined to be impaired and, accordingly, no specific provisions were considered necessary in respect of any of the loans and advances provided by the Bank (31 December 2014: Nil).

Based on the assessment of health of the overall loans and advances portfolio, and also in compliance with the directive of the Central Bank of UAE, the Bank has determined a collective impairment provision of AED 12,405 thousand (31 December 2014: AED 12,405 thousand) against risk of default incurred but not yet identified.

## 5 INVESTMENTS

|                                             | 30 June<br>2015<br>AED'000<br>(Unaudited) | 31 December<br>2014<br>AED'000<br>(Audited) |
|---------------------------------------------|-------------------------------------------|---------------------------------------------|
| <b>Available-for-sale investments</b>       |                                           |                                             |
| <b>Debt</b>                                 |                                           |                                             |
| Quoted                                      | 928,533                                   | 774,300                                     |
| Unquoted                                    | 94,505                                    | 91,707                                      |
|                                             | 1,023,038                                 | 866,007                                     |
| <b>Equity</b>                               |                                           |                                             |
| Quoted                                      | 481,506                                   | 664,491                                     |
| Unquoted                                    | 80,088                                    | 97,654                                      |
|                                             | 561,594                                   | 762,145                                     |
| <b>Total available-for-sale investments</b> | 1,584,632                                 | 1,628,152                                   |
| <b>Investment in bullion</b>                | 557                                       | 541                                         |
| <b>Total investments</b>                    | 1,585,189                                 | 1,628,693                                   |
| <b>Debt investments:</b>                    |                                           |                                             |
| Domestic                                    | 520,380                                   | 573,504                                     |
| Regional                                    | 20,559                                    | 16,387                                      |
| International                               | 482,099                                   | 276,116                                     |
|                                             | 1,023,038                                 | 866,007                                     |
| <b>Equity investments:</b>                  |                                           |                                             |
| Domestic                                    | 101,124                                   | 125,268                                     |
| Regional                                    | 15,908                                    | 37,917                                      |
| International                               | 444,562                                   | 598,960                                     |
|                                             | 561,594                                   | 762,145                                     |
| <b>Investment in bullion</b>                | 557                                       | 541                                         |
|                                             | 1,585,189                                 | 1,628,693                                   |

## 5 INVESTMENTS (continued)

Part of the proprietary investment portfolio of the Bank having a carrying value of AED 76 million (2014: AED 116 million) is pledged as collateral with banks against credit facilities and repurchase agreements totaling to AED 57 million (2014: AED 85 million).

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2015, the Bank held the following investments measured as follows:

|                       | 30 June<br>2015<br>AED'000<br>(Unaudited) | <i>Investments carried at fair value</i> |                                   |                                   | <i>Investments<br/>carried<br/>at cost<br/>AED'000<br/>(Unaudited)</i> |
|-----------------------|-------------------------------------------|------------------------------------------|-----------------------------------|-----------------------------------|------------------------------------------------------------------------|
|                       |                                           | Level 1<br>AED'000<br>(Unaudited)        | Level 2<br>AED'000<br>(Unaudited) | Level 3<br>AED'000<br>(Unaudited) |                                                                        |
| Debt investments:     |                                           |                                          |                                   |                                   |                                                                        |
| Domestic              | 520,380                                   | 437,013                                  | -                                 | -                                 | 83,367                                                                 |
| Regional              | 20,559                                    | 20,559                                   | -                                 | -                                 | -                                                                      |
| International         | 482,099                                   | 470,961                                  | 11,117                            | 21                                | -                                                                      |
| Equity investments:   |                                           |                                          |                                   |                                   |                                                                        |
| Domestic              | 101,124                                   | 83,975                                   | -                                 | 17,149                            | -                                                                      |
| Regional              | 15,908                                    | 15,908                                   | -                                 | -                                 | -                                                                      |
| International         | 444,562                                   | 341,927                                  | 102,074                           | 561                               | -                                                                      |
| Investment in bullion | 557                                       | 557                                      | -                                 | -                                 | -                                                                      |
|                       | <u>1,585,189</u>                          | <u>1,370,900</u>                         | <u>113,191</u>                    | <u>17,731</u>                     | <u>83,367</u>                                                          |

As at 31 December 2014, the Bank held the following investments measured as follows:

|                       | 31 December<br>2014<br>AED'000<br>(Audited) | <i>Investments carried at fair value</i> |                                 |                                 | <i>Investments<br/>carried<br/>at cost<br/>AED'000<br/>(Audited)</i> |
|-----------------------|---------------------------------------------|------------------------------------------|---------------------------------|---------------------------------|----------------------------------------------------------------------|
|                       |                                             | Level 1<br>AED'000<br>(Audited)          | Level 2<br>AED'000<br>(Audited) | Level 3<br>AED'000<br>(Audited) |                                                                      |
| Debt investments:     |                                             |                                          |                                 |                                 |                                                                      |
| Domestic              | 573,504                                     | 493,930                                  | -                               | -                               | 79,574                                                               |
| Regional              | 16,387                                      | 16,387                                   | -                               | -                               | -                                                                    |
| International         | 276,116                                     | 263,983                                  | 12,101                          | 32                              | -                                                                    |
| Equity investments:   |                                             |                                          |                                 |                                 |                                                                      |
| Domestic              | 125,268                                     | 107,988                                  | -                               | 17,280                          | -                                                                    |
| Regional              | 37,917                                      | 37,917                                   | -                               | -                               | -                                                                    |
| International         | 598,960                                     | 434,118                                  | 164,256                         | 586                             | -                                                                    |
| Investment in bullion | 541                                         | 541                                      | -                               | -                               | -                                                                    |
|                       | <u>1,628,693</u>                            | <u>1,354,864</u>                         | <u>176,357</u>                  | <u>17,898</u>                   | <u>79,574</u>                                                        |

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2015 (Unaudited)

**5 INVESTMENTS (continued)**

During the current period, investments amounting to Nil (2014: AED 12,101 thousand) was transferred from Level 1 to Level 2 as quoted prices for such securities are no longer regularly available.

Investments amount to Nil (2014: AED 62,125 thousand) was transferred from Level 2 to Level 1. The transfers from Level 2 to Level 1 were made in 2014 as the market in respect of these securities was considered to be active again. Investment under Level 2 fair value hierarchy is valued using latest available asset value.

The following table shows a reconciliation of the opening and closing amounts of level 3 investments recorded at fair value:

|                                           | <b>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</b> | <b>31 December<br/>2014<br/>AED'000<br/>(Audited)</b> |
|-------------------------------------------|-----------------------------------------------------|-------------------------------------------------------|
| At the beginning of the period            | 17,898                                              | 7,104                                                 |
| Transfer from Level 1                     | -                                                   | 7,959                                                 |
| Transfer from Level 2                     | -                                                   | 12,165                                                |
| Transfer from investments carried at cost | -                                                   | 693                                                   |
| Total losses                              |                                                     |                                                       |
| in income statement                       | -                                                   | (4,556)                                               |
| in other comprehensive income             | (36)                                                | (5,649)                                               |
| Disposals                                 | (131)                                               | -                                                     |
| Purchases                                 | -                                                   | 182                                                   |
| At the end of the period                  | <u>17,731</u>                                       | <u>17,898</u>                                         |

The Bank has assessed the sensitivity of the fair value measurement of investments under level 3 due to changes in inputs used. Based on the assessment, no major changes in the fair value of investments under level 3 are noted as at 31 December 2014. Such an assessment is performed on an annual basis by observing the changes in unobservable inputs which might result in higher or lower fair value measurement.

**6 DUE TO BANKS**

|                       | <b>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</b> | <b>31 December<br/>2014<br/>AED'000<br/>(Audited)</b> |
|-----------------------|-----------------------------------------------------|-------------------------------------------------------|
| Term placement        | 124,932                                             | 96,931                                                |
| Repurchase agreements | -                                                   | 28,296                                                |
| Overdraft facility    | 499                                                 | 5,656                                                 |
|                       | <u>125,431</u>                                      | <u>130,883</u>                                        |

The Bank has borrowed an amount of Nil (December 2014: AED 28 million) under repurchase agreements, whereby the Bank's investments in certain bonds with a carrying value of Nil (December 2014: AED 40 million) as at 30 June 2015 are pledged as collateral under these agreements.

The Bank has also borrowed an amount of AED 57 million (December 2014: AED 57 million) under term placements, whereby the Banks investments in certain bonds with a carrying value of AED 76 million (December 2014: AED 76 million) as at 30 June 2015 are pledged as collateral under these placements.

**7 INTEREST INCOME**

|                    | <i>Six months ended</i>                             |                                                     |
|--------------------|-----------------------------------------------------|-----------------------------------------------------|
|                    | <i>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>30 June<br/>2014<br/>AED'000<br/>(Unaudited)</i> |
| Loans and advances | 16,567                                              | 14,822                                              |
| Bank placements    | 1,181                                               | 34                                                  |
|                    | <u>17,748</u>                                       | <u>14,856</u>                                       |

**8 NET INCOME FROM INVESTMENTS**

|                                                                 | <i>Six months ended</i>                             |                                                     |
|-----------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
|                                                                 | <i>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>30 June<br/>2014<br/>AED'000<br/>(Unaudited)</i> |
| Interest income on investments in debt instruments              | 16,151                                              | 24,740                                              |
| Net realised gain on disposal of available-for-sale investments | 24,347                                              | 32,279                                              |
| Dividend income                                                 | 9,421                                               | 12,102                                              |
| Portfolio management fee paid to other financial institutions   | (864)                                               | (891)                                               |
|                                                                 | <u>49,055</u>                                       | <u>68,230</u>                                       |

**9 BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share of AED 39.76 is calculated by dividing the profit of AED 27,831 thousand for the six months period ended 30 June 2015 (30 June 2014: AED 35,288 thousand) by the weighted average number of shares outstanding during the period of 700,000 of AED 100 each (30 June 2014: 700,000 shares of AED 100 each).

The earnings per share of AED 50.41 as reported for the six months period ended 30 June 2014 (previously reported as AED 54.29) are adjusted for the effect of the shares issued in 2015 as a result of the stock dividend. The figures for basic and diluted earnings per share are the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

**10 SEGMENTAL ANALYSIS**

For operating purposes, the Bank is organised into two major business segments: (a) Investments which is principally involved in managing the Bank's own investment portfolio and provides treasury services; and (b) Banking Services, which principally manages client's investment portfolio, provides credit facilities, accepts deposit from corporate and individual customers and provides advisory services on corporate finance and capital market transactions. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

## 10 SEGMENTAL ANALYSIS (continued)

|                          | <i>Investments</i>      |                    | <i>Banking Services</i> |                    | <i>Total</i>            |                    |
|--------------------------|-------------------------|--------------------|-------------------------|--------------------|-------------------------|--------------------|
|                          | <i>Six months ended</i> |                    | <i>Six months ended</i> |                    | <i>Six months ended</i> |                    |
|                          | <i>30 June</i>          |                    | <i>30 June</i>          |                    | <i>30 June</i>          |                    |
|                          | <i>2015</i>             | <i>2014</i>        | <i>2015</i>             | <i>2014</i>        | <i>2015</i>             | <i>2014</i>        |
|                          | <i>AED'000</i>          | <i>AED'000</i>     | <i>AED'000</i>          | <i>AED'000</i>     | <i>AED'000</i>          | <i>AED'000</i>     |
|                          | <i>(Unaudited)</i>      | <i>(Unaudited)</i> | <i>(Unaudited)</i>      | <i>(Unaudited)</i> | <i>(Unaudited)</i>      | <i>(Unaudited)</i> |
| Revenue *                | 53,801                  | 71,844             | 24,299                  | 17,224             | 78,100                  | 89,068             |
| Inter-segment adjustment | (1,064)                 | (12,921)           | 1,064                   | 12,921             | -                       | -                  |
|                          | <u>52,737</u>           | <u>58,923</u>      | <u>25,363</u>           | <u>30,145</u>      | <u>78,100</u>           | <u>89,068</u>      |
| Profit for the period    | <u>26,332</u>           | <u>34,713</u>      | <u>1,499</u>            | <u>575</u>         | <u>27,831</u>           | <u>35,288</u>      |

\* Revenue comprises of interest income, net income from investments, other income and exchange gain/(loss) - net less impairment loss on investments.

|                                | <i>Investments</i> |                    | <i>Banking Services</i> |                    | <i>Total</i>       |                    |
|--------------------------------|--------------------|--------------------|-------------------------|--------------------|--------------------|--------------------|
|                                | <i>30 June</i>     | <i>31 December</i> | <i>30 June</i>          | <i>31 December</i> | <i>30 June</i>     | <i>31 December</i> |
|                                | <i>2015</i>        | <i>2014</i>        | <i>2015</i>             | <i>2014</i>        | <i>2015</i>        | <i>2014</i>        |
|                                | <i>AED'000</i>     | <i>AED'000</i>     | <i>AED'000</i>          | <i>AED'000</i>     | <i>AED'000</i>     | <i>AED'000</i>     |
|                                | <i>(Unaudited)</i> | <i>(Audited)</i>   | <i>(Unaudited)</i>      | <i>(Audited)</i>   | <i>(Unaudited)</i> | <i>(Audited)</i>   |
| Segment assets                 | <u>2,988,788</u>   | <u>2,981,956</u>   | <u>521,973</u>          | <u>522,822</u>     | <u>3,510,761</u>   | <u>3,504,778</u>   |
| Segment liabilities and equity | <u>1,045,334</u>   | <u>1,091,548</u>   | <u>2,465,427</u>        | <u>2,413,230</u>   | <u>3,510,761</u>   | <u>3,504,778</u>   |

## 11 COMMITMENTS AND CONTINGENT LIABILITIES

The Bank has the following credit related contingent liabilities and commitments:

|                                         | <i>30 June</i>     | <i>31 December</i> |
|-----------------------------------------|--------------------|--------------------|
|                                         | <i>2015</i>        | <i>2014</i>        |
|                                         | <i>AED'000</i>     | <i>AED'000</i>     |
|                                         | <i>(Unaudited)</i> | <i>(Audited)</i>   |
| Guarantees                              | 67,363             | 79,863             |
| Unutilised committed credit facilities* | 23,729             | 20,954             |
|                                         | <u>91,092</u>      | <u>100,817</u>     |

The Bank has no commitments on account of investments made in securities and limited partnership funds.

\* Unutilised committed credit facilities represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent exact future cash requirements.

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2015 (Unaudited)

**11 COMMITMENTS AND CONTINGENT LIABILITIES (continued)***Operating lease commitments:*

|                                                                                     | <i>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>31 December<br/>2014<br/>AED'000<br/>(Audited)</i> |
|-------------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------------|
| Future minimum lease payments                                                       |                                                     |                                                       |
| Within one year                                                                     | 1,627                                               | 1,651                                                 |
| After one year but not more than five years                                         | 2,118                                               | 3,214                                                 |
|                                                                                     | <hr/>                                               | <hr/>                                                 |
| Total operating lease expenditure contracted for at the end of the reporting period | <b>3,745</b>                                        | <b>4,865</b>                                          |
|                                                                                     | <hr/>                                               | <hr/>                                                 |

**12 RELATED PARTY TRANSACTIONS**

The Bank enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

The significant balances outstanding in respect of related parties included in the interim condensed financial statements are as follows:

|                                                                       | <i>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>31 December<br/>2014<br/>AED'000<br/>(Audited)</i> |
|-----------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------------|
| <i>Directors, their related parties and key management personnel:</i> |                                                     |                                                       |
| Loans and advances                                                    | 20,716                                              | 790                                                   |
|                                                                       | <hr/>                                               | <hr/>                                                 |
| Investments                                                           | 72,348                                              | 61,209                                                |
|                                                                       | <hr/>                                               | <hr/>                                                 |
| Customers' deposits                                                   | 926,786                                             | 1,024,991                                             |
|                                                                       | <hr/>                                               | <hr/>                                                 |
| Commitments and contingencies                                         | 58,878                                              | 74,423                                                |
|                                                                       | <hr/>                                               | <hr/>                                                 |

The income and expenses in respect of related parties included in the interim condensed financial statements are as follows:

|                                                                       | <i>Six months ended<br/>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>30 June<br/>2014<br/>AED'000<br/>(Unaudited)</i> |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------------------------|
| <i>Directors, their related parties and key management personnel:</i> |                                                                          |                                                     |
| Interest income                                                       | 1,834                                                                    | 716                                                 |
| Interest expenses                                                     | 11,798                                                                   | 12,790                                              |
| Other income                                                          | 777                                                                      | 904                                                 |
| General and administration expenses                                   | 2,108                                                                    | 1,721                                               |

**Compensation of key management personnel:**

|                             | <i>Six months ended<br/>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>30 June<br/>2014<br/>AED'000<br/>(Unaudited)</i> |
|-----------------------------|--------------------------------------------------------------------------|-----------------------------------------------------|
| Salaries and other benefits | 5,021                                                                    | 3,746                                               |
|                             | <hr/>                                                                    | <hr/>                                               |

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2015 (Unaudited)

**13 DERIVATIVE FINANCIAL INSTRUMENTS**

In the ordinary course of business the Bank enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The purpose of derivative financial instruments in the Bank's business is to mitigate the risks arising from default, currency and interest fluctuations and other market variables. The Bank uses forward foreign exchange contracts to mitigate the currency risk on certain investments.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with the notional amounts. The notional amount, recorded gross is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period end and are neither indicative of the market risk nor credit risk.

| <i>Positive<br/>fair value<br/>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>Negative<br/>fair value<br/>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>Notional<br/>amount<br/>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>Positive<br/>fair value<br/>31 December<br/>2014<br/>AED'000<br/>(Audited)</i> | <i>Negative<br/>fair value<br/>31 December<br/>2014<br/>AED'000<br/>(Audited)</i> | <i>Notional<br/>amount<br/>31 December<br/>2014<br/>AED'000<br/>(Audited)</i> |
|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------|

**Derivative:**

|                                       |            |              |                |              |              |                |
|---------------------------------------|------------|--------------|----------------|--------------|--------------|----------------|
| Forward foreign<br>exchange contracts | <u>664</u> | <u>2,190</u> | <u>498,513</u> | <u>2,135</u> | <u>1,827</u> | <u>142,894</u> |
|---------------------------------------|------------|--------------|----------------|--------------|--------------|----------------|

Derivative financial instruments include forward foreign exchange contracts. These instruments are entered into for a period of up to five years. The Bank has twenty seven forward foreign exchange contracts (2014: eleven) outstanding as at 30 June 2015.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. A small movement in the value of the asset, rate or index underlying a derivative contract may have an impact on the profit or loss of the Bank. The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk.

**Derivative product type****Forwards**

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in over-the-counter markets.

**Fair value**

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Bank's best estimate of the most appropriate model inputs.

Foreign exchange forward contracts are valued using valuation techniques, which employs the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity.

**Derivative related credit risk**

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honours its obligation, but the counterparty fails to deliver the counter value.

The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2015 (Unaudited)

**13 DERIVATIVE FINANCIAL INSTRUMENTS (continued)***Derivative related credit risk (continued)*

The following table shows an analysis of derivative financial instruments recorded at fair value by level of the fair value hierarchy.

**30 June 2015**

|                                       | <i>Level 1<br/>AED'000</i> | <i>Level 2<br/>AED'000</i> | <i>Level 3<br/>AED'000</i> | <i>Total<br/>AED'000</i> |
|---------------------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| <b>Financial assets</b>               |                            |                            |                            |                          |
| Forward foreign<br>exchange contracts | -                          | 664                        | -                          | 664                      |
| <b>Financial liabilities</b>          |                            |                            |                            |                          |
| Forward foreign<br>exchange contracts | -                          | 2,190                      | -                          | 2,190                    |

**31 December 2014**

|                                       | <i>Level 1<br/>AED'000</i> | <i>Level 2<br/>AED'000</i> | <i>Level 3<br/>AED'000</i> | <i>Total<br/>AED'000</i> |
|---------------------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| <b>Financial assets</b>               |                            |                            |                            |                          |
| Forward foreign<br>exchange contracts | -                          | 2,135                      | -                          | 2,135                    |
| <b>Financial liabilities</b>          |                            |                            |                            |                          |
| Forward foreign<br>exchange contracts | -                          | 1,827                      | -                          | 1,827                    |

**14 DIVIDENDS**

On 18 March 2015, the shareholders have approved in the annual general meeting a scrip dividend at 7.692% of the paid up capital amounting to AED 5,000 thousand (2014: a scrip dividend of 8.333% amounting to AED 5,000 thousand for the year ended 31 December 2014). The scrip dividend was issued on 29 March 2015.

**15 FIDUCIARY ASSETS**

|                             | <i>30 June<br/>2015<br/>AED'000<br/>(Unaudited)</i> | <i>31 December<br/>2014<br/>AED'000<br/>(Audited)</i> |
|-----------------------------|-----------------------------------------------------|-------------------------------------------------------|
| Balance of fiduciary assets | 4,871,185                                           | 4,214,543                                             |

The Bank manages investments on behalf of its customers. These investments are held by the Bank in a fiduciary capacity and are, accordingly, not included in these financial statements as assets of the Bank.